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Saudi Arabia

Tourism Report

Includes 5-year forecasts to 2024

Contents

Key View

Key View: *Our forecasts for Saudi Arabia's tourism market have been lowered significantly to account for the Covid-19-related socioeconomic shocks set to cripple the industry throughout 2020. Widespread border closures, social lockdowns, flight suspensions and economic uncertainty will all weigh on market sentiment over the coming quarters. We, however, remain hopeful that the industry will begin to recover from 2021 onwards. Saudi Arabia is a major site for pilgrimage and our recovery outlook is predicated upon rising incomes in key religious tourism source markets, strong economic diversification efforts as part of the Vision 2030 strategy and the robust, capital-intensive investments in a stream of infrastructure projects linked to accommodations, transportation, retail and entertainment. We note that broad government support is crucial to industry momentum, and primary downside risks stem from a second wave of Covid-19 and the wider macroeconomic uncertainties.*

KEY FORECASTS (SAUDI ARABIA 2018-2024)

Indicator	2018e	2019e	2020f	2021f	2022f	2023f	2024f
International tourism receipts, USDbn	15.77	17.31	9.25	11.30	13.38	15.21	16.99
International tourism receipts, USDbn, % y-o-y	6.2	9.8	-46.6	22.1	18.4	13.7	11.7
International tourism receipts, SARbn	59.14	64.92	34.69	42.36	50.17	57.02	63.70
International tourism receipts, SARbn, % y-o-y	6.2	9.8	-46.6	22.1	18.4	13.7	11.7
Total arrivals, '000	15,300.00	16,196.65	7,266.56	8,814.79	10,218.14	11,457.83	12,590.84
Total arrivals, '000, % y-o-y	-5.0	5.9	-55.1	21.3	15.9	12.1	9.9

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Latest Updates And Key Forecasts

- International arrivals will decrease by 55.1% to 7.2mn, down from 16.2mn in 2019. We note that the Covid-19 pandemic will cause significant disruptions to religious and leisure tourism.
- Our core outlook envisages a steady return to growth from 2021 onwards, and we expect total international arrivals to increase to 12.6mn by YE24.
- The weak economic climate will weigh on investor sentiment this year as a number of hotels look to suspend operations, while many projects in the pipeline face suspensions and postponements.
- The Saudi government launched tourism e-visas for nationals from more than 40 countries in Q319. Furthermore, the visas were extended to all Schengen visa holders regardless of nationality in Q419. We expect this development to support market recovery over the medium term to 2024.
- In 2019, the government stated that it would begin the first of the residential projects, as part of the futuristic USD500bn 'Project NEOM', and that the first stage would be ready by Q420.
- Latest results from Q120 suggest that Saudi Arabia leads the Middle East and North Africa region in terms of hotel development, with an estimated 215 hotels under construction with over 72,000 rooms.
- **Hyatt** announced in Q120 that it will open two Grand Hyatt properties in the country over the coming years, with one in Al Khobar in 2020/21 and another in Makkah by 2025.

Covid-19 Impact

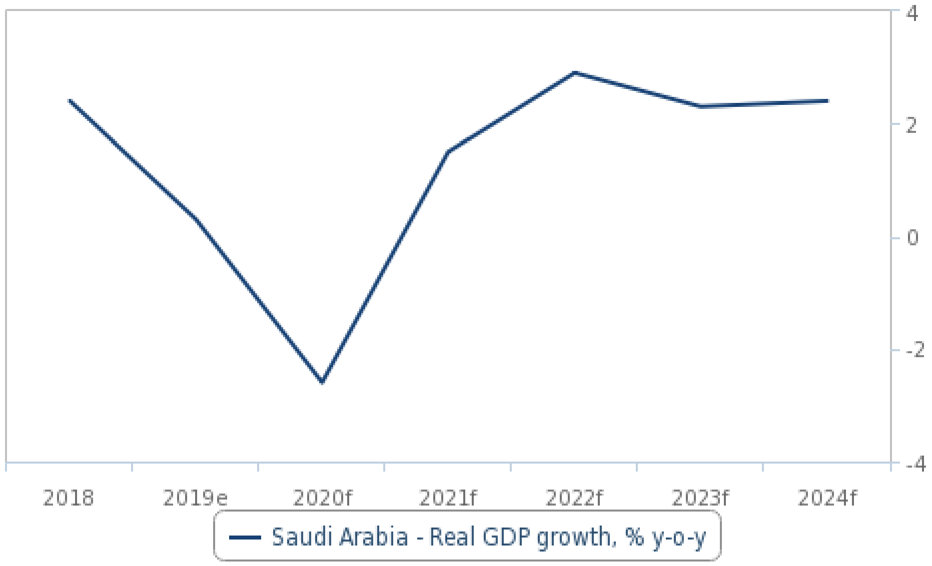
- The impact of the pandemic on the Saudi economy will be severe, as rising economic uncertainty coupled with oil price shocks of Q120 will depress the headline macro environment.
- Real GDP growth for Saudi Arabia has been negatively revised to -2.63% in 2020, down from +0.63% in 2019.
- Religious pilgrimage prospects will remain subdued this year as social distancing measures will prohibit mass gatherings. We expect both Hajj and Umra events to face significant restrictions for much of 2020.
- Mecca and Medina, two of the holiest religious cities in Saudi Arabia, face the toughest social lockdown restrictions owing to the high number of low-income, undocumented immigrant populations. Government authorities have resorted to delivering food

house to house in certain neighbourhoods to quell the infectious outbreak.

- Reduced hydrocarbon revenues will hurt public and private spending levels and depress investor sentiment. Due to reduced consumer demand, we expect the massive infrastructure pipeline to face some delays and postponements.
- Brent crude has been trading at under USD20/bbl as of April 2020, and Saudi Arabia's public and private finances will feel significant pressures until the price settles.
- Flag carrier **Saudi Airlines** has stated that it does not expect its flight schedule to return to normal until Q420. The airline carriers over 33.5mn passengers annually and has a fleet of over 140 jets.

Covid-19 To Depress All Economic Verticals

Saudi Arabia Real GDP Growth (2017-2024)



e/f = Fitch Solutions estimate/forecast. Source: SAMA, Fitch Solutions

SWOT

Tourism SWOT

SWOT Analysis	
Strengths	• Religious pilgrimages are a cornerstone of inbound tourism demand. • There is increasingly strong support for the tourism sector from the government as part of its economic diversification strategy. • Several large-scale tourism projects are being developed, including the SAR17bn al-Uqair Tourism Development Project. • There are a number of world heritage sites in the country. • Saudi Arabia has one of the best business environments in the region, particularly for construction. • Arguably MENA's largest hotel construction and development pipeline, and the region's largest tourism market in terms of revenue.
Weaknesses	• The tourism market is overly dependent on religious tourism, with limited leisure tourism. • The country depends on an expatriate workforce and is home to a large, young population that lacks marketable skills. • Security issues in the surrounding region continue to deter many potential visitors; Iranian attacks on Saudi oil facilities in 2019 pose downside security risk in the region over 2020. • Covid-19-related socioeconomic shocks to depress short-term tourism outlook. • Oil price collapse in Q120 to further weaken investor sentiment and delay infrastructure, construction and hotel projects in the construction pipeline.
Opportunities	• The introduction of tourism visas will significantly grow the base of tourism, attracting leisure tourists as well as religious and business visitors. • Many hotel chains are making significant investments in the country's hotel industry, notably in the Mecca region. • A significant ramp-up in investment in the tourism sector is likely as part of the government's Vision 2030 agenda. Reform momentum will be sped up by the appointment of the modernist Mohammad bin Salman as crown prince. • Airport and rail infrastructure improvements are likely to boost tourism in less visited areas. • The planned construction of specialised medical centres will boost the country's position in the regional medical tourism sector. • The drop in world oil prices may spur governmental development of the tourism sector to diversify the economy away from the oil and gas industry. • The General Entertainment Authority pledged to invest up to USD64bn over the 2018-2028 period in developing a multi-billion-dollar domestic entertainment industry.
Threats	• Intervention in the conflict in Yemen could escalate tensions in the region and impede growth in the tourism sector. • A military standoff with Iran continues to loom in the background and the possibility of a war cannot be ruled out. • Covid-19-related disruptions to economic verticals could extend into H220-2021. • Social distancing measures could impact regions tourism over 2020-2021.

Industry Forecast

***Key View:** The short-term outlook has been lowered to account for the devastating effects of the Covid-19 pandemic on global tourism and the crippling prospects facing Saudi Arabia over the coming months. Flight suspensions, border closures and heightened health concerns will debilitate tourism for much of 2020, as the industry braces for severe shocks. That said, we expect the outlook to refresh in 2021 as Saudi Arabia remains the site of major religious tourism and the medium- to long-term outlook will remain supported by the ambitious Vision 2030 economic diversification agenda. Headline multi-billion dollar initiatives to develop accommodations, transport, retail and infrastructure will all support the market's evolution over the next decade. Negative risks to growth stem from a geopolitical crisis with Iran and another Covid-19 outbreak in H220/2021.*

Latest Updates

- We have made negative revisions to our tourism forecasts, to account for the impact of the Covid-19 pandemic on the global market outlook. Tourism arrivals are set to plummet by 55% to 7.3mn. While we expect the outlook to brighten from 2021 onwards, by 2024, we expect just 12.6mn visitors, down from 16.1mn in 2019.
- Saudi Arabia is set to impose strict curfews across the Kingdom for the month of Ramadan, beginning in April 2020. There is a high likelihood that religious tourism will remain heavily off limits this year due to social distancing aimed towards reducing Covi-19 cased.
- Thus far, the low-income neighbourhoods of Mecca and Medina have seen the strictest measure. Inhabitants of high-risk districts have been barred from leaving their homes altogether, with government authorities delivering basic food and medicine from house to house.
- Latest estimates from Q120 suggest that Saudi Arabia is a Middle East and North Africa (MENA) leader in terms of hotels under construction. The country boasts around 215 hotels under construction, but we note that the coronavirus-related weak investor sentiment may delay or postpone a number of the projects.
- The Saudi government remains committed to economic diversification in the aftermath of the prolonged global oil price slump. The government has instituted the Vision 2030 strategy and is looking to invest in a number of non-hydrocarbon industries, including tourism. The tourism sector has been specifically highlighted in the new economic strategy of the country.
- The government is looking to boost both international and domestic tourism out to 2030 and is developing theme parks, hotel complexes, shopping malls and a number of high-rise buildings to compete with neighbouring UAE.
- A number of major projects aimed at international and domestic tourism remain in the pipeline, including the 300,000sq m Mall of Saudi and a massive USD1.9bn shopping complex, The Avenues - Riyadh.
- **Hyatt** announced in Q120 that it has two new Grand Hyatt properties under construction in Saudi Arabia. The Grand Hyatt Al Khobar is expected to open in late 2020 or 2021, whereas the Grand Hyatt in Makkah is slated for opening in 2025.
- **Hilton** announced in 2019 that it would open six new properties in the country by 2022. Four new hotels are to be developed with the **Shomoul Holding Company** at The Avenues - Riyadh. Additionally, the chain announced the development of two properties in conjunction with the **Umm Al Qura Development & Construction Company** in Mecca. Hilton boasts a construction portfolio of around 30 hotels in Saudi Arabia at present.
- **Saudi Airlines** has virtually grounded its entire fleet and has stated that it may not be able to resume its full flight operations until late-Q420.

Structural Trends

Religious tourism is the backbone of the Saudi tourism industry, accounting for the vast majority of inbound travel, accompanied by a much smaller business travel component and very limited leisure travel (outside the domestic market). Historically, development of non-religious tourism has been weak and there have been barriers to entry for foreign visitors, making travel to the country expensive and visas difficult to obtain, including for visitors taking part in religious pilgrimages. The Saudi government does, however, hold significant ambitions for the country's tourism industry over the long term and is taking steps to open the market and encourage growth. The government announced in October 2017 that they would begin issuing tourist visas for the first time, and underscored the commitment to modernising the economy and attracting new visitors. In H219, in addition to over 40 passport

nationalities, the simplified visa process included to allow anyone with a Schengen EU visa to apply for the online permit.

Job opportunities in tourism and tourism-related sectors are expected to exceed 1.7mn by 2023/2024, according to a report by the Saudi Commission for Tourism and National Heritage, which stated that employment growth in the tourism sector is forecast at 10.0% between 2010/11 and 2020/21, compared with a global growth rate of 2.5%. This highlights the rapid expansion of the tourism sector to date and the emphasise that the government is placing on future economic diversification away from oil revenues. However, we would emphasise that there are a number of regional rivals with regard to the tourism industry in the Middle East, many of which have already established themselves more firmly as accessible tourism destinations. This could undermine Saudi Arabia's aspirations to become the main Middle Eastern tourist destination. We also note that prospects for growth in some wealthier markets will likely be limited, owing to the fact that the conservative religious culture could discourage visitors from Western countries. This is in addition to the restrictions of entry for non-Muslims. We note that this comes from a low base and inbound arrivals growth will largely come from the Middle East and Africa.

Looking ahead, over the five-year horizon, our core scenario envisages a steep decline in 2020 that will undo the growth levels seen over the past decade, as the debilitated consumer demand (in light of Covid-19) will impact both the established religious tourism industry and the budding leisure holiday market. We expect the outlook to return to positive trends over 2021-2024, when the initial pandemic-related shocks subside and global demand levels gradually gain traction. We highlight the fact that government support for tourism will remain crucial for a medium-term recovery and sustained long-term organic growth, especially in the era of low hydrocarbon revenues.

Covid-19 To Derail Industry Growth Trajectory

Tourist Arrivals & International Tourism Receipts (2018-2024)

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Tourism Arrivals: Pandemic To Stymie Growth

Saudi Arabia has seen steady increases in inbound travel in recent years, recovering well from a sharp decline in 2012 following regional unrest in the wake of the Arab Spring. The inbound arrivals market is dominated by visitors on pilgrimages to major religious sites, with more than 2mn visitors to Mecca alone each year. Much of the hotel industry is geared towards this market, and the investment is substantial. In addition to developments in the hotel sector, physical transportation infrastructure is attracting major investment as the government seeks to avoid a repeat of the September 2015 stampede, which resulted in approximately 2,000 reported deaths. The market witnessed a slowdown over the 2017-2018 period, emanating from the Gulf Cooperation

Council (GCC)-Qatar crisis, but we expect this to remain a limited affair, with growth levels returning as source markets expand.

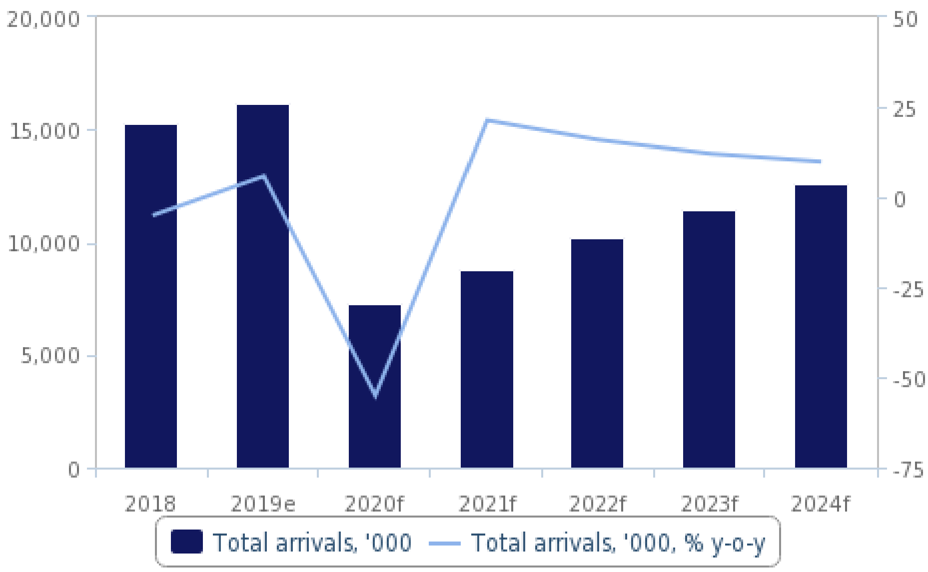
In 2020, we expect the industry to face significant headwinds stemming from the global Covid-19 pandemic, which will seriously disrupt the international travel and tourism market. Border closures, social lockdowns, flight suspensions and quarantine efforts have hampered the global economy and significantly depressed consumer demand levels in most countries. As a result, we do not expect travel and tourism to remain viable for much of 9M20, and forecast a contraction in Saudo Arabia's international arrivals of about 55.1% with total visitors plummeting to 7.3mn, down from 16.2mn in 2019. For now, the risks to our short-term outlook are weighed to the downside as another wave of Covid-19 infections in H220 will potentially keep international borders closed for much longer. Furthermore, we also expect the social distancing measures to limit both Hajj and Umra tourism in 2020, since major religious shrines and sites may face year-round closures.

For now, our core scenario envisages a steady return to growth in the travel and tourism industry beginning in 2021, if global viral containment efforts are successful. We see religious tourism spearheading recovery, followed by a boost in leisure tourism (something that Saudi Arabia has been championing for a few years). Additionally, over 2021-2024, we expect new simplified visa procedures to further support non-religious holidaymakers. Thus, our revised outlook expects inbound travel figures to recover from 7.3mn in 2020 to 12.6mn by YE24. We note that there is some additional upside risk for these forecasts in light of considerable government efforts to expand the tourism industry, which are in line with Saudi Arabia's drive to diversify its domestic economy and develop sources of income outside the oil sector. Medical tourism remains an area in which Saudi Arabia wants to invest, along with a number of IT and smart city initiatives. It is likely that by 2024, if diversification efforts are pursued diligently, the country may attract a higher number of tourists (commercial, MICE and holidaymakers) than we forecast presently.

We highlight that Crown Prince Mohammad bin Salman's efforts towards economic and social modernisation are proving highly fruitful as headline projects related to tourism and social reform have begun to expand the various service sectors of the country. In 2018, the government pledged to invest up to USD64bn to develop a state-of-the-art entertainment industry over the next decade. Efforts will include the creation of opera houses, exhibition avenues and a Hollywood-style regional entertainment industry complete with domestic cinemas, movie and film production, arts and theatre. We note that this will provide additional upside risk to tourism-related growth over the medium and long term.

Global Tourism Rebound To Begin In 2021

Total Arrivals (2018-2024)



e/f = Fitch Solutions estimate/forecast. Source: National source, Fitch Solutions

The Middle East market will remain the single largest tourist source market, representing just under 40% of all arrivals to Saudi Arabia across our forecast period. The second largest region will be the Asia Pacific, which contributes more than a third of arrivals to Saudi Arabia and will continue to grow steadily. This is driven both by recovering economic conditions in key source markets and the relaxation of previously strict visa regulations surrounding religious pilgrimage. Saudi Arabia has also invested heavily in infrastructure, and there is an ever-increasing number of conferences and exhibitions, partly because of government schemes to develop a greater business travel sector. Arrivals from Europe are forecast to be much lower, at 761,000 in 2020, but we expect growth to accelerate in the coming years, given the government's increasing efforts to diversify tourism sources.

Neighbouring countries account for most of the top 10 source markets, with other major Muslim-majority countries completing the list. This shows the importance of religious tourism to the industry (more than three-quarters of all arrivals in 2024 will be from these 10 countries), and religious tourists will continue to account for the majority of inbound visitors and revenues. The Hajj, which takes place during the 12th month of the Islamic lunar calendar - along with smaller pilgrimages, which can take place at any point in the year - contributes around USD12bn annually. According to the Council for Economic and Development Affairs, this figure is predicted to rise to more than USD20bn over the next five years. Furthermore, the council predicts that the number of religious tourists on pilgrimages will increase from 8mn in 2016 to 15mn by 2020 (highly unlikely given the Covid-19 pandemic) and to 30mn by 2030.

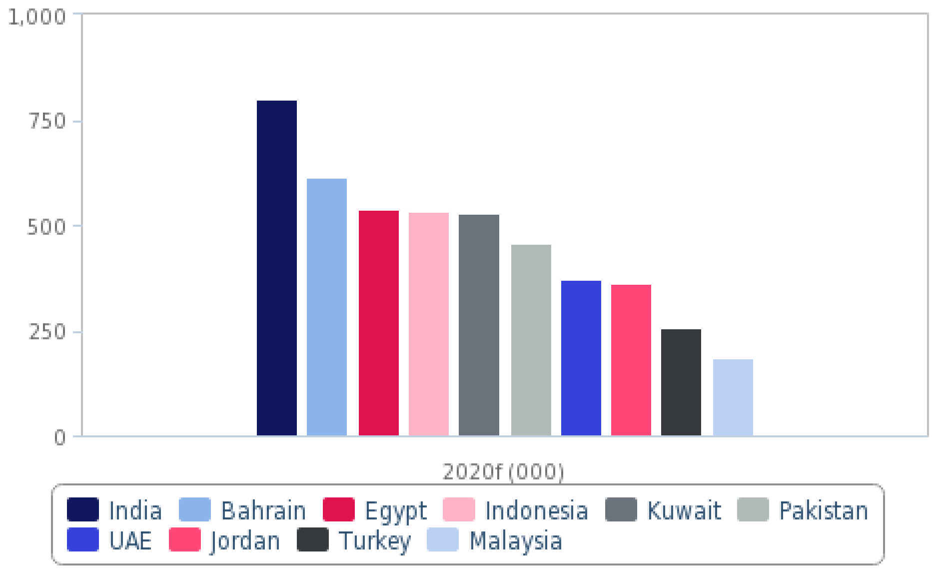
Strengthening efforts to attract higher-spending tourists from Europe and North America will likely bear fruit in the coming years. A number of reforms, including the introduction of tourist visas, special tourist zones exempting tourists from conservative rules on dress codes or alcohol consumption, and investment in resorts and entertainment, will likely succeed in boosting visitor numbers from a low base. However, we note that the country will face strong competition from neighbouring Qatar and the UAE in this area.

The top 10 markets - comprising states from the Middle East and Asia - show the market's resilience, as these countries are from different parts of the world with a range of different economies, and they insulate the industry against asymmetric economic shocks. Religious tourism can also be considered more resilient, as it is based on spiritual journeys rather than commercial choices. Arrivals growth from India and Pakistan will be strong as income expansion in the two massive South Asian source markets will support an increase in religious tourism.

That said, growing business and commercial ties will also support a rise in visitors from neighbouring countries such as Bahrain, Kuwait and the UAE as a significant percentage of trips between the countries will be short trips for business reasons. However, we note downside risk to visitor numbers from Qatar, given the deterioration in relations between the two countries after the GCC suspended ties with Qatar. Our current forecast envisages a normalisation of relations with Qatar over the course of 2020, but we will revise our forecasts if there is no change in the geopolitical climate. Additionally, we note that travel from low-income countries such as Pakistan, India and Egypt also includes a number of arrivals of people coming to work or visit someone who works in the country.

Religious Tourism To Suffer Heavily In 2020

Saudi Arabia - Top 10 Source Markets, 2020f ('000)



f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

There are a number of medium-term downside risks to our outlook. First of all, Saudi Arabia's intervention in Yemen continues to destabilise the region. Secondly, the potential for conflict between sanction-crippled Iran and Saudi Arabia remains an ever present geopolitical threat. Thirdly, the oil price shocks of Q120 have once again hurt investor sentiment, and there is a possibility that a prolonged slump in oil prices may further hurt the GCC markets. Finally, we note that a second wave of Covid-19 in Q420 or 2021 will further hurt market growth sentiment and depress the five-year outlook.

INBOUND TOURISM (SAUDI ARABIA 2017-2024)

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
Total arrivals, '000	16,109.00	15,300.00	16,196.65	7,266.56	8,814.79	10,218.14	11,457.83	12,590.84
Total arrivals, '000, % y-o-y	-13.5	-5.0	5.9	-55.1	21.3	15.9	12.1	9.9
Arrivals by region, Africa, '000	2,752.23	2,578.76	2,651.71	1,191.39	1,443.49	1,665.70	1,869.99	2,065.04
Arrivals by region, Africa, '000, % y-o-y	-11.1	-6.3	2.8	-55.1	21.2	15.4	12.3	10.4
Arrivals by region, North America, '000	171.87	175.15	180.25	80.31	95.45	109.73	117.69	120.76
Arrivals by region, North America, % y-o-y	2.1	1.9	2.9	-55.4	18.9	15.0	7.3	2.6
Arrivals by region, Latin America, '000	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Arrivals by region, Latin America, % y-o-y	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrivals by region, Asia Pacific, '000	5,191.01	5,243.32	5,699.38	2,543.40	3,089.51	3,577.73	4,014.61	4,411.13
Arrivals by region, Asia Pacific, % y-o-y	-0.6	1.0	8.7	-55.4	21.5	15.8	12.2	9.9
Arrivals by region, Europe, '000	1,389.79	1,424.91	1,572.10	761.02	910.44	1,037.39	1,156.77	1,264.62
Arrivals by region, Europe, % y-o-y	-2.8	2.5	10.3	-51.6	19.6	13.9	11.5	9.3
Arrivals by region, Middle East, '000	6,447.31	5,495.20	5,688.14	2,508.69	3,055.43	3,572.03	4,012.20	4,414.39
Arrivals by region, Middle East, % y-o-y	-21.9	-14.8	3.5	-55.9	21.8	16.9	12.3	10.0

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Marketing Strategies: Building A New Brand

The reliance on religious tourism remains a concern in Saudi Arabia, partly because it creates an unbalanced, seasonal tourism industry. The government is attempting to counter this by encouraging conferences in Riyadh and Jeddah. However, in order to attract more visitors and increase hotel occupancy, the country needs to do more to counter the cyclical nature of tourism in the country. Efforts include a recently announced plan for a Red Sea Bridge linking the kingdom with Egypt, which could also help boost visitor numbers. The new pilgrimage route would help increase the number of visitors to Saudi Arabia to an all-time high, particularly as it has a market reach of 90mn Egyptians.

On April 25 2017, then-deputy Crown Prince Mohammad bin Salman unveiled Saudi Arabia's Vision 2030, a blueprint for the transformation of the Saudi economy away from its reliance on oil and the public sector. With no equivalent since the founding of the Kingdom of Saudi Arabia in 1932, the reforms spearheaded by Mohammad bin Salman will impact virtually every sector of Saudi society and the economy. Under Saudi Arabia's modernisation plan, tourism has been made one of the priority sectors, which will facilitate increased investment in the sector over the coming years and growing interest from international and regional hotel groups. Assuming that the Saudi government faces no technical or political difficulties - which is highly improbable - the sheer scale of the reform package means that Vision 2030 will take years to implement, beyond some of the government's deadlines. Several reforms have deadlines of 2020, while others have not yet received a time frame for completion. Our Country Risk team believes that new investment in the tourism sector will present a significant opportunity for diversification and could be a boon for economic activity and employment over the coining years.

Under the Vision 2030 agenda, key objectives for the tourism industry include increasing the number of Umrah visitors from 8mn in 2015 to 15mn by 2020 (unlikely, given the Covid-19 pandemic) and to 30mn by 2030; doubling the number of Saudi heritage sites registered with UNESCO; creating a number of new archaeological sites and museums in a bid to develop non-religious tourism; and capitalising on the government's real estate, in particular historical and religious sites and beaches to develop tourism projects. Social liberalisation will also be a draw to the tourism sector. The Red Sea tourism area will be a special semi-autonomous zone where conservative dress rules will not apply, which could lead to more visitors. Furthermore, the ban on women driving has been lifted, which is likely to improve the country's reputation among Western visitors.

Tourism Receipts: Industry Revenues To Feel The Headwinds

In 2020, we expect tourism receipts to face a sharp decrease as global demand slumps to historically unprecedented levels. Tourism receipts are expected to decrease by 46.6% y-o-y to USD9.3bn (SAR34.7bn) as global demand for hospitality, tourism and gastronomy nosedives. For now, the risks to our short-term outlook are weighted to the downside, but we remain positive that the spending levels will recover over the medium term. Looking ahead, we expect a rebound from 2021 onwards - as international receipts for travel items are set to grow to USD17.0bn (SAR63.7bn) by YE24, with an increase in spending on both travel items and transport.

We note that this reflects the nature of the inbound travel market, which is dominated by visitors on pilgrimage who generally do not travel further around the country, limiting spending on domestic transport networks. The Saudi Arabian government is investing SAR525bn (USD140bn) in the country's transport networks over the next 10 years, according to the governor of the Saudi Arabian General Investment Authority. As the tourism market broadens and expands, we expect to see further growth in the spending on travel.

Although foreign tourists might account for some of the big-ticket spending on luxury hotels and resorts and expensive restaurants, the largest portion of the country's tourism market remains domestic, and this somewhat constrains overall receipts. Tourism spending is also constrained by the large volume of low-income visitors on the annual religious pilgrimage, some of whom arrive from countries with lower purchasing power, such as those in South Asia and Africa. The UAE, which welcomes a similar number of annual foreign visitors, records almost double the volume of international tourism receipts and tends to attract many more visitors.

TOURISM RECEIPTS (SAUDI ARABIA 2017-2024)

Indicator	2017	2018e	2019e	2020f	2021f	2022f	2023f	2024f
International tourism receipts, USDbn	14.85	15.77	17.31	9.25	11.30	13.38	15.21	16.99
International tourism receipts, USDbn, % y-o-y	10.5	6.2	9.8	-46.6	22.1	18.4	13.7	11.7
International tourism receipts, SARbn	55.68	59.14	64.92	34.69	42.36	50.17	57.02	63.70
International tourism receipts, SARbn, % y-o-y	10.5	6.2	9.8	-46.6	22.1	18.4	13.7	11.7
International tourism receipts, transport services, SARbn	10.47	11.12	12.21	6.52	7.97	9.43	10.72	11.98
International tourism receipts, transport services, SARbn, % y-o-y	19.2	6.2	9.8	-46.6	22.1	18.4	13.7	11.7
International tourism receipts, travel items, SARbn	45.21	48.02	52.71	28.16	34.40	40.73	46.30	51.72
International tourism receipts, travel items, SARbn, % y-o-y	8.65	6.22	9.77	-46.57	22.13	18.42	13.67	11.71

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Hotels: Leading The MENA Regional Pipeline

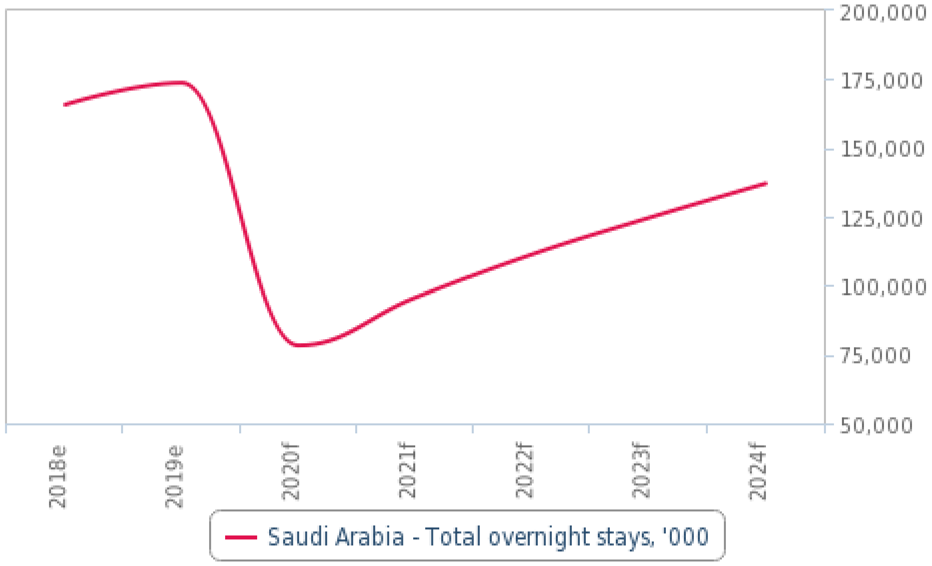
The accommodation sector in the country is a major beneficiary of investment and has one of the most packed pipelines in the MENA region. Latest Q120 estimates indicate that more than 215 new hotel properties are currently under construction. We note that the Covid-19-related shocks will depress investor sentiment in the market, as reduced oil revenues and plummeting global demand coupled with border closures will delay or postpone a number of headline accommodations projects. Prior to the worldwide spread of Covid-19, around 100 hotels were supposed to open their doors by end of Q420. Now, there is a strong possibility that most of the projects will face delays and postponements as hotels look to schedule their soft-openings at a more favourable time in the future.

Hotel investment has been high in the country for the past few years, owing to rising demand largely due to religious pilgrimages. The hotel sector has expanded rapidly, including a number of flagship developments that will add thousands of rooms to current capacity. Growth in tourism real estate is currently focused on a number of key developments, such as the Jabal Omar Development, a designated tourist city that will be next to the Makkah al-Mukarramah Mosque and will accommodate up to 100,000 tourists from among the 10mn pilgrims who visit the site each year. In addition to 15,000 luxury hotel rooms, the development will provide 4,000 stores and 500 restaurants.

Stable economic conditions are attracting foreign investment and the focus recently has been on the development of high-end and luxury hotels. Some international hotel groups are increasingly targeting the wider region and Saudi Arabia in particular for expansion: Hilton, **Radisson Hotels Group**, **Accor**, **Marriot International**, **InterContinental Hotels Group**, **Jumeirah Group** and **Best Western** have all opened or are looking to open new properties around the country. The business tourism market is being targeted in particular, with most new properties having business facilities. While this trend is continuing with high levels of investment in Jeddah, Mecca and Riyadh - helping to meet demand for businessmen and wealthy travellers - the country would benefit from introducing more options for less opulent tourists, especially around the time of Hajj, when accommodation prices increase substantially.

The hotel sector has been booming, particularly in regions surrounding major cities and tourist destinations. While the overall trend is supportive, we expect a number of smaller hotels to close in 2020 as demand remains virtually absent. We see total hotels increasing from 2,380 in 2020 to over 2,760 by 2024. The hotel occupancy rate will also plummet this year, declining from 70.2% in 2019 to 43.8% in 2020. However, as the industry rebounds, we expect this to recover to around 69.5% by YE24. Total overnight stays had reached approximately 174mn in 2019 but we see this number falling to just 78mn in 2020, with risks presently to the downside. Looking ahead, we expect this number to recover to 137mn by 2024.

Hotel Industry To Face Serious Challenges
Saudi Arabia - Overnight Stays (2018-2024)



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

The government has become directly involved in the accommodation sector, commissioning a vast new super-hotel development in Mecca. The USD3.5bn Abraj Kudai Hotel development will cover an area of 1.4mn sq m and have 10,000 rooms in 12 towers, 70 restaurants, a convention centre, floors specially designed for royal guests and four rooftop helipads. The hotel was scheduled to be completed in 2017, but various delays pushed the opening back to 2021 or 2022.

While we view this as a positive development overall for the wider tourism sector, it poses some risks to the hoteliers themselves, as few, if any, have the necessary funds to compete with the Saudi government at the upper levels of the luxury market. However, we retain our positive outlook, overall, for the hotel sector in the country, as rising domestic and international numbers will continue to boost demand and the comparatively unsaturated market offers opportunities at all levels.

HOTEL ACCOMMODATION (SAUDI ARABIA 2018-2024)

Indicator	2018e	2019e	2020f	2021f	2022f	2023f	2024f
Number of hotels and establishments, '000	2.40	2.62	2.38	2.41	2.55	2.67	2.76
Total overnight stays, '000	165,742.2	173,693.0	78,322.0	95,651.1	111,324.7	124,581.1	137,037.6
Average length of stay, nights	10.8	10.7	9.8	9.9	9.9	9.9	9.9
Hotel rooms, '000	393.23	420.91	375.57	377.30	391.30	409.38	416.74
Occupancy rate, %	66.3	70.2	43.8	52.7	58.8	64.9	69.5

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Domestic Tourism Market: Travel Restricts To Limit Outbound

Saudi Arabia has a relatively large population of around 34mn (2020 forecast), and there is a strong tradition of domestic travel in the country. In part, this is due to the difficulty of overseas travel, as Saudi passport holders only benefit from visa-free or visa on arrival travel in 69 countries globally, primarily in Africa and Central Asia, with advance visas required for popular European and North American destinations. Despite this, Saudi travellers are lauded as among the highest spending globally, with government reports stating that Saudi travellers spend more than USD14bn overseas annually. The government is keen to keep more of this spending at home and has some USD11.6bn worth of tourist projects planned or underway in order to encourage more local travel.

We expect the Covid-19 pandemic to hurt short-term international outbound visitors as total number will fall by 21.1% to just below 11mn. That said, our core outlook estimates a ready increase from 2021 to 2024 with total number of foreign trips growing to 14.5mn by 2024. As with the inbound travel market, a large proportion of outbound visitors (more than 85%) will be to other countries in MENA, because of strong business and cultural ties in the region and because there is no visa requirement for travel between GCC states. Business trips tend to be shorter, but Saudi Arabians also travel for cultural and retail purposes, often to countries without the restrictions that their homeland has. While government investment in the domestic tourism market will encourage greater travel within the country, domestic tourism will continue to face major competition from overseas travel, particularly as transport connections are improved and visa restrictions are potentially eased.

TOURIST DEPARTURES AND CONSUMPTION (SAUDI ARABIA 2017-2024)

Indicator	2017e	2018e	2019e	2020f	2021f	2022f	2023f	2024f
Outbound, total departures, '000	13,367.89	13,550.76	13,885.53	10,959.43	12,022.56	12,959.42	13,801.63	14,466.94
Outbound, total departures, % y-o-y	0.1	1.4	2.5	-21.1	9.7	7.8	6.5	4.8
Average Tourist departure per 1000 of the population	403.85	402.07	405.20	314.80	340.19	361.54	379.90	393.16

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Industry Risk/Reward Index

Middle East And North Africa Tourism Risk/Reward Index

Key View*: The Covid-19 pandemic has hit Middle East and North Africa (MENA)'s tourism market hard as countries impose travel restrictions to prevent the spread of the virus. With an average score of 46.12, the region is one of the three weakest performers in our Risk/Reward Indices (RRIs), alongside the Caribbean and Sub-Saharan Africa. Scores for the region are likely to be heavily impacted by the virus as countries in the region implement flights suspensions and 14-day quarantines, among other measures.*

At the time of writing, every country in our RRI has confirmed Covid-19 cases, with Iran having 131,652 - the highest number in the region. Scores for the country, which remains in the bottom five of the index, are likely to be hindered by the virus as some airlines, including **Turkish Airlines**, suspend flights to Iran and a number of countries such as Armenia prohibit entry for Iranian travellers or place them under mandatory quarantine. With a total of 67,719 cases at the time of writing, Saudi Arabia has the second highest number of Covid-19 infections in MENA. Although the Gulf Cooperation Council (GCC) member retains its score from the previous quarter, this was not enough to prevent it from slipping three places. At present, we forecast that Saudi Arabia's total tourist arrivals and international tourism receipts will decline by 55.16% y-o-y and 46.60% y-o-y respectively. In addition, the country's scores have the potential to be impacted further by the temporary suspension of entry for pilgrimages. As of May 21, the Saudi Arabian government was yet to make a decision on whether the annual Hajj pilgrimage will go ahead in late July 2020. Oman also dropped three places due to a weaker Rewards profile, in which Industry Rewards declined by 3.33. At the time of writing, we forecast that Oman's tourist arrivals will contract by 59.64% y-o-y in 2020. Fellow GCC member Kuwait also saw its Rewards and Industry Rewards scores decrease this quarter, pushing the country out of the top five. As with other countries in our RRI, Kuwait's growth is likely to be stymied by coronavirus as tourism is brought to a standstill by stringent travel restrictions, including the grounding of flights.

In contrast, Tunisia climbed seven places up the RRI to become North Africa's outperformer owing to much stronger Rewards and Industry Rewards scores. However, the pandemic is expected to weigh on the growth of Tunisia’s economically important tourism sector in the coming quarters. As of May 22 2020, a countrywide curfew is still in effect, travel is prohibited between cities and regions, and visitors are required to self-quarantine for 14 days. Jordan also entered the top five this quarter due to an improved Rewards profile. Nonetheless, travel restrictions pose a risk to our Industry Rewards component in particular, as flights suspensions and closure of land and sea borders limit factors such as hotel occupancy and arrivals growth.

Although there have been a plethora of movements this quarter, GCC countries continue to occupy positions in the top 10, showcasing the importance of membership for our MENA RRI. The UAE continues to lead the index with a comfortable 10.31 lead against its closest competitor, Bahrain. The country excels in our index, garnering a regional best of 70.31 in Rewards. It also performs solidly in Risks, securing the region's second highest score behind Bahrain. In May 2020, the UAE started to ease restrictions slightly, allowing **Etihad Airways** and **Emirates** to run inbound and outbound flights to several destinations in Europe, the Americas and Asia. However, visitors to the UAE will be subject to testing and a mandatory 14-day quarantine.

Our proprietary RRI provides a comparative regional ranking system that evaluates the ease of doing business as well as the industry-specific opportunities and limitations for potential investors in a given market. It is broken down into Rewards, indicating the level of potential returns on investment, and Risks, which outline the factors that may prevent the realisation of these potential returns.

MIDDLE EAST AND NORTH AFRICA - TOURISM RISK/REWARD INDEX

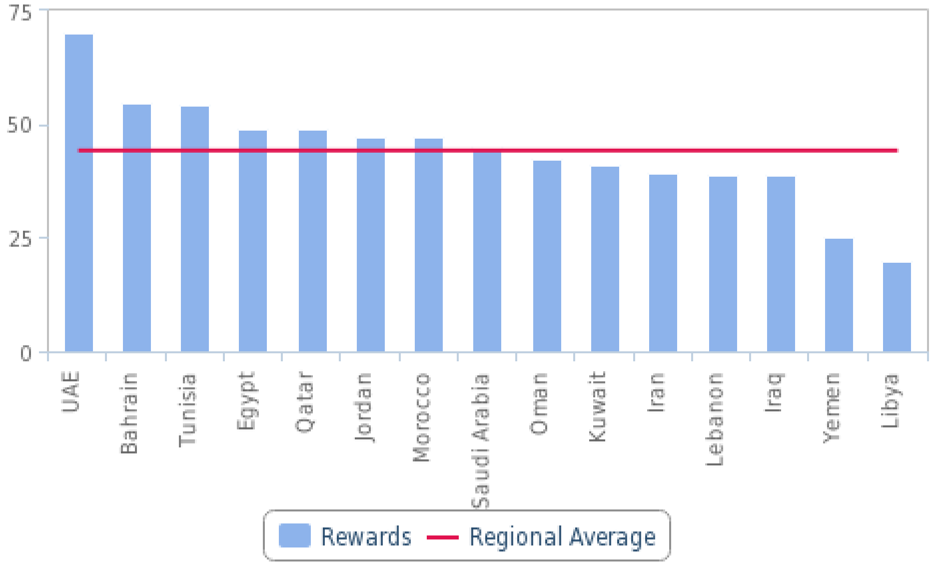
	Rewards	Industry Rewards	Country Rewards	Risks	Industry Risks	Country Risks	Tourism Index	Rank
UAE	**70.31**	75.00	63.28	**62.27**	79.92	47.82	**67.90**	1
Bahrain	**54.55**	58.33	48.86	**64.70**	68.41	61.66	**57.59**	2
Tunisia	**54.28**	61.67	43.19	**49.81**	59.87	41.59	**52.94**	3
Qatar	**49.15**	43.33	57.88	**61.22**	72.06	52.35	**52.77**	4
Jordan	**47.22**	51.67	40.54	**57.43**	60.50	54.92	**50.28**	5
Egypt	**49.19**	53.33	42.96	**49.87**	59.07	42.35	**49.39**	6
Morocco	**47.07**	61.67	25.16	**54.65**	61.70	48.88	**49.34**	7
Saudi Arabia	**45.12**	50.00	37.79	**58.02**	72.72	45.99	**48.99**	8
Oman	**42.37**	48.33	33.43	**58.47**	75.53	44.51	**47.20**	9
Kuwait	**41.13**	38.33	45.33	**61.13**	70.29	53.64	**47.13**	10
Lebanon	**38.87**	41.67	34.66	**48.32**	53.54	44.05	**41.70**	11
Iran	**39.30**	41.67	35.74	**39.35**	63.75	19.39	**39.31**	12
Iraq	**38.67**	31.67	49.18	**27.72**	51.67	8.14	**35.39**	13
Yemen	**25.19**	25.00	25.48	**35.57**	43.33	29.22	**28.30**	14
Libya	**20.04**	11.67	32.59	**31.63**	41.57	23.50	**23.51**	15
Regional Average	**44.16**	**46.22**	**41.07**	**50.68**	**62.26**	**41.20**	**46.12**	

Note: Scores out of 100; higher score = lower risk. Source: Fitch Solutions

The Rewards section evaluates the sector's size and growth potential in each state, along with broader industry and state characteristics that may inhibit its development. It takes the numbers and percentage growth of tourist arrivals over the past year into account as well as our forecasts for growth in 2020 and beyond. The Industry Rewards score focuses on the size and value of the tourism market, factoring in growth potential and ease of doing business. The Country Rewards score centres on labour costs and infrastructure for the tourism sector. The UAE tops the Rewards component of our index, retaining an impressive 15.77 lead against Bahrain, which round outs the top five with Qatar and the North African markets of Tunisia and Egypt. Although, Kuwait continues to be the weakest GCC market, it still places in the 10 leading countries for Rewards. Conversely, Iran, Lebanon, Iraq and Yemen populate the bottom five with Libya, which retains the lowest score this quarter.

UAE Retains Significant Lead

MENA Tourism Rewards

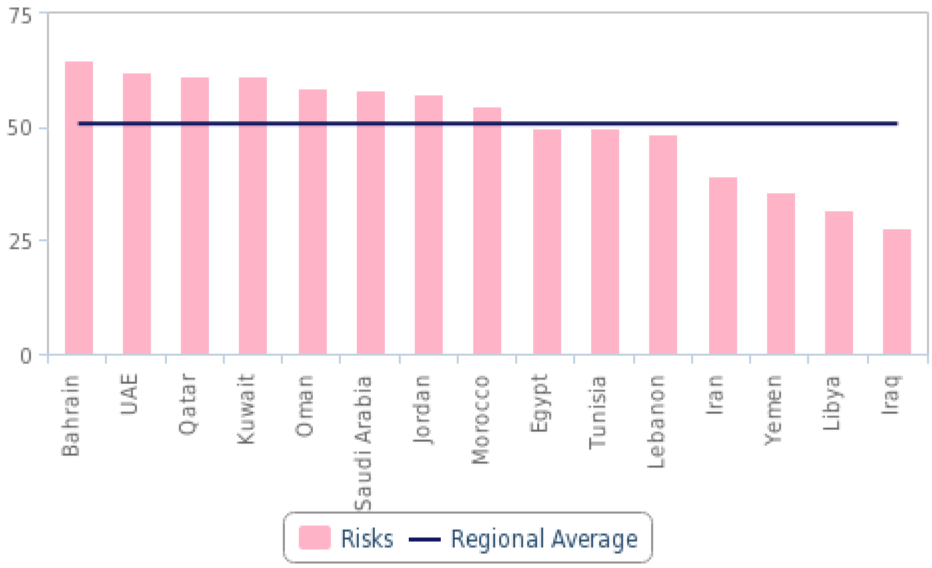


Note: Scores out of 100; higher score = lower risk. Source: Fitch Solutions

The Risks section evaluates industry-specific dangers and those emanating from the state's political and economic profile that question the likelihood of anticipated returns being realised over the forecast period. The Industry Risks score considers short-term political and regional stability as well as vulnerability to external factors. The Country Risks score covers corruption, legal framework, bureaucracy, market openness and security risk. Overall, Risks scores are more balanced across MENA, as evidenced by the region's respectable average of 50.68. Eight of the 15 markets continue to score above the regional mean, including front runners Bahrain and the UAE. Morocco is the only North African market to surpass the Risks average, while Egypt and Tunisia come within touching distance of this score. Libya, meanwhile, remains in the bottom five with Iran, Yemen, Iraq and new entrant Lebanon. At the opposite end of the index, GCC countries continue their winning streak, placing consecutively from first to sixth position.

GCC Members Top Risks Component

MENA Tourism Risks



Note: Scores out of 100; higher score = lower risk. Source: Fitch Solutions

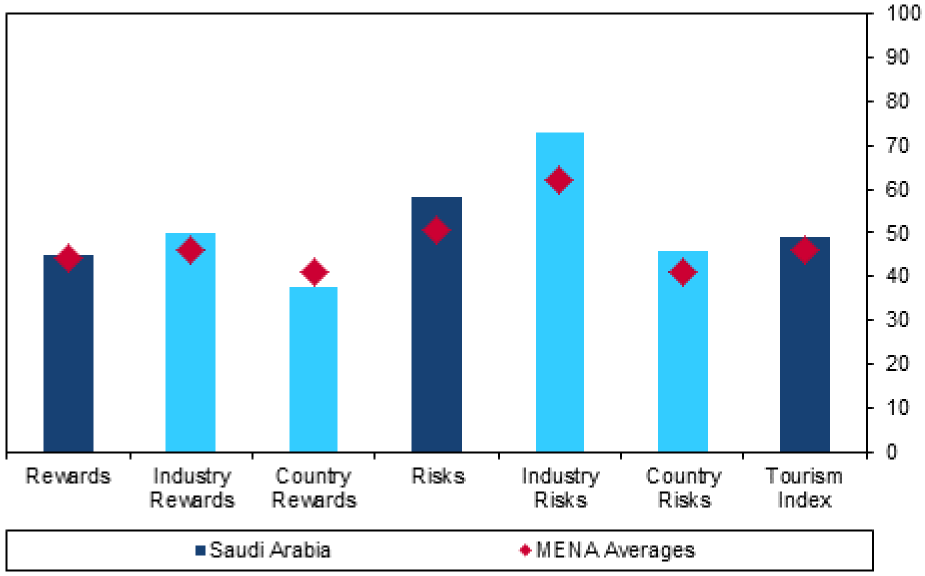
Please Note: *Our Risk/Reward Indices are updated frequently; as a result, scores in this section may not match scores in the rest of the report.*

Saudi Arabia Tourism Risk/Reward Index

Key View: *The Saudi Arabian Tourism Risk/Reward Index score has been negatively revised this quarter to account for the headwinds facing the sector over the short term. The Covid-19 pandemic will cripple religious tourism, while the related economic shocks and oil price collapse will hurt consumer demand and depress investor sentiment. While the market retains strong medium- and long-term potential bolstered by the Vision 2030 diversification strategy, the short-term outlook for tourism industry is very challenging.*

Market On Strong Footing But Covid-19 To Derail 2020 Growth

Saudi Arabia vs MENA Tourism Risk/Reward Index (Q320)



Source: Fitch Solutions

Rewards

This section gives an evaluation of the sector's size and growth potential in each state, along with broader industry and state characteristics that may inhibit its development. The Rewards Index for tourism takes into account the numbers and percentage growth of tourist arrivals over the past three years and our forecasts for growth in 2020 and beyond. Saudi Arabia has an overall Rewards score of 45.12 out of 100, above the regional average of 44.16.

Industry Rewards

The Industry Rewards score takes into account the size and value of the tourism market, factoring in growth potential and ease of doing business. We expect tourist arrivals in Saudi Arabia to see strong and steady growth over the coming years, aided by the government's plans to invest heavily in the sector as part of its economic diversification plans. Religious tourism will also continue to be a major driver of growth within the sector over the coming years. The country consequently retains an Industry Rewards score of 50.00 this quarter.

We note that this score is subject to a negative revision in the coming quarter, as the 2020 outlook for arrivals is exceedingly weak given the impact of Covid-19. Furthermore, demand levels for tourism are also set to take a hut from rising levels of economic uncertainty in key source markets. That said, we remain confident that Saudi Arabia will emerge as a tourism success story over the coming decade as the Vision 2030 agenda will support a resurgence.

Country Rewards

The Country Rewards score takes into account labour costs and infrastructure. We believe that there is much to be done to improve tourism infrastructure and to create a wider range of tourism facilities. Saudi Arabia scores just 37.79, placing it in the bottom half of the table. We expect this score to improve as greater investment is made in infrastructure and headline projects contribute to growth. However, we caution that the oil price collapse and the severe economic uncertainties in the wake of Covid-19 will hurt investment prospects in the country and potentially delay a number of infrastructure projects related to travel and tourism.

Risks

This score offers an evaluation of industry-specific dangers and those emanating from the state's political and economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period. Saudi Arabia again scores ahead of the regional average, with 58.02 for Risks. While this is slightly lower than neighbouring markets such as Oman, it still outperforms the regional average.

Industry Risks

The Industry Risks score takes into account short-term political stability and regional stability, as well as vulnerability to external factors. While there is risk to the outlook, particularly the regional threat posed by geopolitical tensions, Saudi Arabia continues to score very high for short-term political stability and achieves an Industry Risks score of 72.72. A number of challenges do pose risks, including tensions with Iran, a diplomatic standoff with Qatar and the civil disturbance in neighbouring Yemen.

Country Risks

The Country Risks score covers aspects such as legal framework, bureaucracy, market openness and security risks. Saudi Arabia scores 45.99 as a result of rising security risks in the region as well as political tensions in the country and exposure to Islamic extremists. The participation of the Arab Gulf countries in the US-led military campaign against Islamic State has increased the risk of violent retaliatory attacks in the region, and Saudi Arabia is now seen as a legitimate target for militants. Furthermore, we note that tensions between Saudi Arabia and Iran remain elevated, with Iranian attacks on Saudi oil infrastructure further raising the stakes.

Market Overview

The Saudi tourism industry had witnessed spectacular growth over the past decade (2010-2019) with strong investments into accommodations, transport infrastructure and supportive government policy aimed towards economic diversification. While the industry's fundamentals remains strong, we note that the short-term outlook has deteriorated significantly due to the Covid-19 pandemic. We expect investor sentiment to weaken and consumer demand to plummet to historic lows in 2020 in light the of social quarantines, border closures and flight suspensions. We expect hotels to reduce operations and a number of new projects face delays as enterprises limit cash burn and investors scale back new investments amidst exceedingly weak consumer demand. All major economic verticals associated with the industry will gradually begin to recover from 2021 onwards after the pandemic has subsided.

Saudi Arabia is keen to develop its tourism industry further, and this will lead to greater investment in the hotel sector, including the quality mid-range sector in underdeveloped locations, such as along the Red Sea coastline. Tourism is becoming increasingly important for Saudi Arabia as it looks to diversify its economy and move away from a reliance on oil. It is also becoming a significant potential source of employment; it is estimated that up to 1.7mn additional Saudis may find work in the industry by 2020/21 (now highly unlikely given the severity of the Covid-19 pandemic). The area has been an increasing focus for the country, singled out by the government as one of the priority sectors in its recently announced diversification strategy, Vision 2030. With no equivalent since the founding of the Kingdom of Saudi Arabia in 1932, the reforms spearheaded by Crown Prince Mohammad bin Salman will have an impact on virtually every sector of Saudi society and the economy.

Vision 2030 has significant potential implications for the economy in general and the tourism sector specifically. Our Country Risk team believes that the replacement of Mohammad bin Nayef as crown prince with Mohammad bin Salman will see reform momentum speed up, given his reputation as the key modernising figure within the Saudi royal family. However, this agenda will take time to materialise, considering the vastness of the reforms and the numerous technical and political hurdles that the government will face while implementing them.

Latest sources suggest that the government is earmarking up to USD2bn to improve cultural and historic sites in the country. The move is expected to boost the country's strong religious and historical positioning and effectively display the historical treasures of the past. Under the new efforts, the number of museums in the country is expected to grow from around 155 to more than 240. The UNESCO heritage sites will increase from four to around 10. Additionally, a number of new archaeological and historical heritage sites will be developed. The cultural aspect of Vision 2030 aims to host more than 400 annual festivals, up from around 200. The multidimensional effort being undertaken by the authorities is strongly indicative of the government's bid to maximise tourism potential on all fronts as the country's treasury grapples with dwindling public finances. The endeavours undertaken thus far all point towards a sustainable, strong medium- and long-term outlook for the industry. Our Country Risk team believes that the tourism sector will offer a significant opportunity for economic diversification and a new source of foreign exchange earnings, with social reforms undertaken in recent quarters likely to boost the outlook.

Saudi Arabia is considered one of the best countries in the region for construction and property registration. The country has taken strides to create an environment where property developers and hotel proprietors can invest more easily, including reducing red tape and bureaucratic regulations surrounding building permits. This has led to a large amount of foreign direct investment from companies involved in the hotel and tourism industries.

The main trend we are seeing throughout the country is high levels of activity in the luxury, urban sectors with little construction of hotels and accommodation in more rural, less popular destinations. Total hotel construction across the country is strong, with over 215 new hotels in the construction pipeline as of Q120. In total, we expect the number of hotels to increase steadily over the course of the forecast period to reach almost 2,760 by 2024, although new developments are constantly being added to the project pipeline, which creates significant upside risk to these forecasts. There are more than 73,000 new hotel rooms under construction or in final planning across the country to meet the demands of the significant increase in tourists. While the medium-term accommodations outlook is positive, we reiterate the view that low investor sentiment due to reduced global tourism demand will

be compounded by the weak oil price environment, which will depress Saudi public and private spending for much of 2020.

While a large number of high-quality establishments are being built in the country, Saudi Arabia also provides accommodation for religious pilgrims, who may not always have the same purchasing power as a business traveller. In religious destinations, such as Medina and Mecca, there are a great many unclassified hotels that are not accounted for in the figures above. Demand for accommodation has increased since 2014 as a result of a health and safety crackdown on non-hotel accommodation. This is despite Hajj numbers having been purposefully reduced.

The capital city Riyadh is a major hub for both business and culture in the country. The city attracts a great deal of business tourism both domestically and internationally, and has become a focal point for trade and travel. The majority of investment in the hotel industry has focused on the upper end of the market, and this will continue in the near-to-medium term. Of the approximately 32 hotel projects under construction in the city, only one is classified as three stars. Twelve of the projects are four stars and the remaining 19 are five stars, which shows the high-end nature of the hotel market in the city. Riyadh would, however, benefit from creating sufficient accommodation for less affluent domestic travellers. Additionally, the cyclical nature of the tourism industry also causes problems. There is undersupply during peak season and lulls during other periods of the year. Increasing the number of business conferences held in the country would help to balance the numbers over the year, as well as increase the visibility of the country as a business destination. Rail and airport infrastructure investment will boost travel to the city, and the building of a fifth terminal at King Khalid International Airport shows the country's commitment to boosting infrastructure and passenger capacity in the future.

The latest high profile announcements in Riyadh came in 2019, when **Hilton** announced that it would be constructing four new hotels in the city over the coming years. In March 2019, Hilton signed a deal with **Shomoul Holding Company** to develop and operate four hotels in mixed-use development, The Avenues - Riyadh, in Saudi Arabia. The deal covers a 350-room and suite Waldorf Astoria, a 400-room Conrad, a 500-key Hilton Garden Inn and a 150-key Canopy by Hilton. The Avenues - Riyadh project will have five multi-purpose towers consisting of hotels, exhibition, conference halls, residential apartments, offices and medical facilities.

Jeddah is the second largest city in Saudi Arabia and is an important destination within the country. As a main business hub and one of the major cultural destinations, Jeddah is expected to continue to enjoy a key role in the country's tourism industry. In terms of hotel infrastructure, Jeddah has enjoyed a similar investment pattern to Riyadh, with an emphasis on high-quality, high-end hotel properties. The majority of properties under construction fall into the luxury category, with a prospective classification of four and five stars. The government has been hard at work strengthening the transport infrastructure surrounding Jeddah, with a USD7.2bn expansion of the King Abdulaziz International Airport completed in early 2016. The project increased the capacity of the airport to more than 30mn a year and is part of the government's wider plan to develop the country's 27 different regional and international airports.

The cities of Medina and Mecca are two main holy cities in the Muslim world and attract a huge number of religious pilgrims each year. The Hajj pilgrimage, which takes place in the 12th month of the Islamic lunar calendar, and lesser Umrah pilgrimages, which can be performed at any time of the year, together contribute USD12bn annually in revenues. Over the last few years, religious visits for Hajj and other pilgrimages have increased by up to 5% a year, and there has been strain on transport infrastructure to accommodate such a large influx to the old city. To cater for the growing religious tourism sector, the government announced, in 2012, a USD16.8bn transport project to modernise the transport system in Mecca by adding two new lines to the metro network. The 453km Al Haramain Express, a high-speed train system, was built to link Medina to Mecca, significantly reducing pressure on existing transport infrastructure.

The high-speed rail link between Mecca and Medina opened in Q418 and more than 250,000 passengers were transported in the first five months of operations. The train began with just 40 trips a week, rising to 60 a week in Q119. Latest estimates from the operator suggest that owing to increased demand, the new rail link will be making up to 100 trips a week by the end of H120. That said, we note that internal domestic trips will be severely impacted by the Covid-19 pandemic, especially as Mecca and Medina face some of the most severe social lockdown restrictions.

Over the short term, we expect the religious tourism sub-sector to be hit particularly hard as domestic social distancing measures coupled with a reduction in large scale public gatherings will discourage mass pilgrimage. The government has long recognised the need to ensure public safety and security around Mecca, especially in the aftermath of the 2015 stampede. The city of Mecca is also home to a large, undocumented migrant population, and government reports in H120 have suggested that Covid-19 cases among the low-income foreigners of Mecca have been very high, outstripping the confirmed cases in metropolitan centres of Riyadh and Jeddah. As a result, we expect stringent official guidelines around public gatherings for religious reasons, in Mecca and other high-risk sites, throughout 2020.

Hotels have benefited from a recent crackdown on non-hotel accommodation in Mecca over the five days of Hajj. Previously, there was a range of options for travellers (including informal camping), but health, safety and security concerns have led to limits on what is permitted, which is increasing formal hotel occupancy rates. Umrah, the second most important pilgrimage after Hajj, has been extended to a year-round pilgrimage, which is likely to encourage an increase in the number of pilgrims able to make the journey as well as smooth seasonality for the tourism industry. Billions of dollars are also being spent on upgrading the transport systems in Riyadh, Medina and Jeddah.

The make-up of hotels in Mecca is different from places such as Jeddah and Riyadh, where luxury hotels dominate the market. The influx of pilgrims (95% of visitors who go to the region do so for religious reasons) means that there has to be a wide range in order to accommodate such a diverse range of visitors. It is estimated that out of the 107,000 rooms available in the city, only 13% are five stars, with up to 37% not classified at all. While the infrastructure development projects have reduced total numbers in the short term, in the long term it is likely to boost inbound arrivals of religious tourists. This resilient demand is resulting in investment by major international players, such as **Kempinski**, **Accor**, as well as strong domestic hotel groups such as **Dur Hospitality**. The Jamal Omar development in Mecca (adjacent to the Kaaba holy site) is the single largest Saudi development, costing USD3.2bn and including up to 40 hotel towers and major international partners such as **Hyatt**, **Marriot** and **Starwood**. In Q219, Hilton announced that it had signed a management agreement with **Umm Al Qura for Development & Construction Company** for two new hotels in Mecca. The first hotel, a three-tower Hilton Garden Inn-branded property, will have 1,560 guest rooms, a restaurant, a business centre, a multifunction room and a boardroom. The second hotel will be operated under Embassy Suites by Hilton brand and will feature 392 two-room suites, business facilities and meeting rooms. Both hotels will be located on King Abdul Aziz Road and will cater to the mid-range tourism and business visitors alike. Furthermore, Kempinski is developing a 380-room ultra-luxury hotel in the city in partnership with **Umm Al Qura for Development and Construction Company**. The property is slated for completion by 2024.

Medina also enjoys investment from hotel groups, with a healthy pipeline at present. In July 2014, Faisal bin Salman Saud, governor of Al Madinah region, launched a SAR55bn (USD14.7bn) real estate project called Dar al-Hijrah. The building occupies a 1.6mn sq m plot and has 100 towers. Of these, 20 are used for administration and 80 are residential. The development also includes 76 four-star hotels and six five-star hotels, accommodating 40,000 people. It also has a 400-bed hospital and a railway station.

Elsewhere, a beach project in the southeastern province of Ahsa is expected to attract USD13.3bn (SAR50bn) in investment over the next 25 years. Saudi Arabia's Council of Ministers had agreed to allocate about USD373.3mn (SAR1.4bn) to meet the project's basic infrastructure requirements. 80% of the investment is expected to come from Saudi and other Gulf Cooperation Council firms, particularly from Qatari and Emirati investors. In July 2014, the Saudi Commission for Tourism and Antiquities reportedly issued licences for the development of six hotel projects in the province of Assir, according to Director General Mohammed al-Omrah. The projects, which include the development of four five- and four-star hotels, hotel apartments and a spa, are scheduled to be completed over the next two years.

Saudi Arabia is undertaking another major multi-billion dollar initiative to develop an entertainment city in Qiddiya, south of Riyadh. The first part of the project is estimated for completion by H222 and is envisaged to include major theme parks, safari sites and motor sports avenues. The move is part of a larger initiative by the government to modernise the country and institute social and economic reforms aimed at engaging the growing demographics, as the number of tech-savvy citizens under the age of 35 continues to grow.

In Q418, the government announced the development of its Red Sea coastline into a major tourism destination. This will include 22 tourism islands and 34,000sq km of land. It is designed to attract luxury travellers, particularly from the West. This will be a semi-autonomous area in which visitors will be able to apply for a visa online or arrive without one, and according to a number of reports, restrictions on dress code and alcohol consumption could be waived in order to attract more tourists. Construction on the project is set to begin in 2019 and will include a new airport, luxury hotels and villas, with the first phase of construction expected to be completed by H222.

The King Abdullah Economic City (KAEC), 100km north of Jeddah, is also actively raising its profile in the country. The government's goal is to turn the KAEC into a major Red Sea resort, economic hub and leisure destination to rival Red Sea tourism destinations such as those found in Egypt, Jordan and Israel. The government hopes to attract more than 3.2mn annual tourists to the KAEC by 2025, up from 160,000 in 2016.

We note that Red Sea destinations, such as Jordan and Egypt, have historically seen a very high degree of leisure tourism and have successfully attracted foreign and MENA regional tourists. The Red Sea is known for its diverse marine life, excellent water sports, and snorkelling and scuba diving opportunities. Saudi Arabia has thus far not capitalised on its Red Sea potential, and the KAEC has the potential to become a rising star on the Red Sea peninsula over the next decade.

In Q318, the Public Investment Fund of Saudi Arabia announced the Amaala gigaproject as part of the Vision 2030 agenda. The futuristic project aims to develop luxurious tourism infrastructure along the Red Sea coast littered with hotels, marinas, retail outlets and residential lodging. We note that the project remains a long-term ambitious agenda of the Vision 2030 and will be located in the vicinity of the futuristic multi-billion-dollar 'Project NEOM' business city. Reports from Q119 suggest that Crown Prince Mohammad bin Salman and his board approved the first residential phase of Project NEOM, which broke ground in 2019 and be completed by Q420.

MENA will remain the largest source market region, representing well more than 60% of all arrivals into Saudi Arabia. The second largest region will be the Asia Pacific region, which will contribute more than a quarter of arrivals by 2023. This rise is driven both by improving economic conditions in key source markets and the relaxation of previously strict visa regulations surrounding religious pilgrimage. Saudi Arabia has also invested heavily in infrastructure, and there is an ever-increasing number of conferences and exhibitions, partly due to government schemes.

While the vast majority of travel to Saudi Arabia will remain concentrated in the religious pilgrimage sector, the development of a wider leisure tourism and business travel sector will encourage greater arrivals from affluent Western markets and new Asia Pacific markets. However, tourist sentiment is likely to be tempered by strict rules on dress code and alcohol consumption. Some destinations, such as Mecca, are also seeing growth in wedding and business travel, which will support the hotel sector outside periods of religious pilgrimage. The focus is thus increasingly concentrated on the luxury travel segment, catering to the growing tourism market in the country. Despite this, we also expect to see further developments in the budget travel sector as demand is guaranteed to remain high.

A number of high-profile commercial projects aimed at boosting regional and domestic tourism remain underway in the country. The USD1.9bn Avenues Riyadh shopping mall and the 300,000sq m Mall of Saudi remain in the pipeline. Furthermore, a Six Flags theme park will also boost regional and domestic tourism in the country. The government has stated that it would like to turn Riyadh into a regional entertainment, tourism and business hub lined with massive malls and entertainment options. We note that the government is looking to mimic the success of neighbouring UAE as it diversifies its economy.

Significant opportunities for Saudi Arabian tourism will likely come as a result of liberalisation in the country. The introduction of tourist visas, set to be adopted in the coming quarters, will open up tourism to wider groups of visitors. Furthermore, a trend of gradual social liberalisation will also likely attract more Western visitors. The large tourism project to be built on the Red Sea beaches will be a semi-autonomous area with less conservative dress code rules than the rest of the country. Furthermore, the lifting of the ban on women driving will likely diminish the country's reputation as highly socially conservative, a factor that has also limited the number of visits from Europe and America.

Saudi Arabia remains exposed to regional political and sectarian tensions prevalent in the Middle East. On the southern border of the country, the prolonged conflict in Yemen remains a source of tension, particularly with the Iran-backed Shi'a rebels. Furthermore, the ongoing conflict in Syria and Iraq with Islamic State remains a threat. A number of terror attacks took place in the country in 2015 and 2016, targeting populated religious tourism sites.

Competitive Landscape

Saudi Arabia has a well-developed hotel market that caters to millions of annual pilgrimage visitors. Numerous regional and global hotel groups are present in the market, although investment is largely concentrated at extreme ends of the budget, with a large budget sector and a relatively comprehensive luxury sector. The neglected mid-range hotel sector is gradually attracting more investment and a number of new hotels are in the pipeline, which will bring further depth to an already expansive market. As of Q120, around 215 hotels were under construction in Saudi Arabia, but we note that there could be delays to the existing projects owing to the impact of Covid-19 throughout 2020.

DOMESTIC HOTEL GROUPS

Hotel Group	Presence
Elaf Group	Elaf Group was established in 1981 and has three business areas: tourism, travel and hotels. It operates 13 hotels in Saudi Arabia (six in Mecca, five in Medina and two in Jeddah). Elaf Group is a subsidiary of Saudi Economic Development Company, a private wealth management company that conducts business according to shari'a law. The group provides hotel management, travel and tourism services to the country's religious and historic sites, plus travel services and tourism packages for the haj and the umrah. The group is reportedly exploring options for expanding into the budget hotel market in India, potentially in partnership with a local hotel group. In June 2017, the group announced plans for an additional hotel in Jeddah.
MENA Hotels and Resorts	MENA Hotels and Resorts was established in 2008 and is part of the Al Hokair Group, one of the largest entertainment and hospitality firms in the Middle East. It focuses on exclusive, boutique properties in the four- and five-star categories. MENA operates three properties in Riyadh: the MENA Hotel Riyadh, the MENA Grand Khaldiya Riyadh and the MENA Plaza Riyadh Hotel; alongside a fourth hotel, the Red Sea Palace in Jeddah. The group is reportedly planning to expand its hotel business, with new hotels planned for the UAE and Oman.
Dur Hospitality	Founded in 1976, Dur Hospitality (formerly known as SHARACO) is a Saudi Arabian integrated hospitality company that owns, develops and manages a range of hospitality and residential properties across Saudi Arabia. The group partners with international hotel brands such as Marriott and builds and manages a wide portfolio of properties. It has 21 hotels in total, offering 2,743 rooms with an estimated SAR2.3bn in hotel assets, in addition to another SAR1.0bn in other real estate assets. The group has hotels in Riyadh, Jubail City, Mecca and Jeddah. It intends to continue investing in Saudi Arabia through building, partnering and acquiring properties. The group announced in January 2016 that it had signed an agreement with the General Authority of Civil Aviation to expand the Makarem Arriyadh Hotel at King Khalid International Airport. In May 2016, the group announced that it will be developing the first Courtyard by Marriott and Residence Inn by Marriott properties in Yanbu. The SAR87mn (USD23.1mn) project will be Marriott International's first franchise agreement in Saudi Arabia.
Dallah Hotels and Resorts	Dallah Hotels and Resorts was founded in 1995 by Sheikh Saleh Abdullah Kamel, chairman and founder of the Dallah Albaraka Group. It operates three hotels: the Dallah Taibah Medinah, the Dallah Ajyad and the 228-room Durrah Beach Resort at the Red Sea. The company's vision is to become one of the top 10 local property management companies in Saudi Arabia, harnessing the company's local knowledge and combining it with specialist knowledge of the tourism industry. The conglomerate has investments in industries including finance, banking, healthcare, real estate, manufacturing, transport, and operations and maintenance.

Source: Company data, Fitch Solutions

INTERNATIONAL HOTEL GROUPS	
Hotel Group	**Presence**
Starwood Hotels and Resorts	Starwood Hotels and Resorts (a subsidiary of Marriott International) is well established in Saudi Arabia. Hotels are operated under the following brands: Le Meridien, Sheraton and Four Points by Sheraton. Starwood has substantial expansion plans for the Saudi Arabian market. The group has ambitious plans to open more properties under the Aloft and Westin brands out to 2023/24.
Radisson Hotels Group	Radisson Hotels Group has a significant number of properties in Saudi Arabia, with 30 hotels currently open in locations including Riyadh, Dammam and Jeddah, offering more than 6,000 rooms. The group also opened two new hotels at the end of 2016. Hotels are operated under the Radisson Blu and Park Inn by Radisson brands. Radisson previously announced plans to expand its holdings in Saudi Arabia, including a deal announced in October 2014 under which the group and Saudi Arabia-based Al Hokair Group would develop more than 30 properties across Saudi Arabia. The properties will include new and existing hotels, resorts and serviced apartments under the Radisson Blu and Park Inn by Radisson brands. The properties will be opened over the next 15-20 years. In July 2017, Radisson announced the launch of the Radisson Blu Hotel, Riyadh Al Sahafa in H219. In January 2018, the group also opened the 150-room Radisson Blu Hotel, Jeddah Corniche.
InterContinental Hotels Group	InterContinental Hotels Group has a solid presence in Saudi Arabia, with seven hotels currently listed as open in the country. Hotels are operated under the Crowne Plaza, Holiday Inn and InterContinental brands, with the largest number of hotels under Holiday Inn, catering to the large budget travel segment. All of the hotels are located in Riyadh. The group plans to open nine new hotels in Saudi Arabia in the next three-to-five years and will introduce two new brands: Staybridge Suites and Hotel Indigo. The Staybridge Suites Jeddah Andalus Mall and Crowne Plaza Riyadh opened in 2017. In Q419, IHG signed an agreement with RIKAZ Properties to open up a new, 140-room Holiday Inn in Al Khobar by 2021.
Accor	Accor has a strong presence in the country, with around 29 properties in total across different brands including Ibis, Mercure, Novotel and Pullman as well as the new Sofitel, which opened in Jeddah in March 2016. Half of all the properties are mid-market offerings and the group has more than 690 employees in the country spread out over Mecca, Medina, Riyadh and Jeddah. The group is actively looking to increase its foothold in the region via both acquisitions and partnerships with other hotel groups. In 2018, Accor opened an ibis Styles property in Mecca, the first from its affordable portfolio in the city.
Hilton	Hilton is well established in Saudi Arabia, with around 12 hotels currently open at a range of locations, including Jeddah, Medina, Mecca and Riyadh. Hotels are operated under several brands, including DoubleTree, Hilton Garden Inn, Conrad and Waldorf Astoria, giving Hilton a relatively broad market coverage, although it is less concentrated on the budget travel sector than other hotel groups. In Q119, the company announced that it had signed an agreement with Shomoul Holding Company to develop four new properties in Riyadh's The Avenues multi-use district. In Q219, the firm further agreed to develop two properties in Mecca. The group reportedly has the most dynamic Saudi expansion strategy with around 34 hotels in the pipeline, according to various estimates.
Rotana Hotel Management Corporation	Rotana is a hotel management company, with headquarters located in Abu Dhabi. The company has operations in the Middle East, Africa, South Asia and Eastern Europe. It has a portfolio of more than 100 properties in 26 cities. The company has six properties in Saudi Arabia at present, with two expected to open in 2020 or 2021. The regional hotel chain has expressed its interest to expand its presence to more than 20 hotels in the country by 2030.
Marriott International	Marriott's presence in Saudi Arabia is solid with around 30 hotels (including the Starwood portfolio) in the country, located in Jazan, Jeddah, Medina, Mecca and Riyadh. Hotels are operated under several brands: Courtyard, Residence Inn and Marriott. The group is expanding in Saudi Arabia with a strong pipeline under construction of over 10 hotels slated for opening by 2023.
Best Western	Best Western's presence in Saudi Arabia is small. The group currently has four hotels in Saudi Arabia, located in Dammam and Riyadh. In addition to Best Western, hotels are also operated under Best Western Plus, which

Hotel Group	Presence
	offers a greater range of leisure facilities. The 80-suite Best Western Premier Al Ahsa opened in May 2017.
Hyatt	Hyatt now has five hotels in Saudi Arabia. These hotels cater more to the high-end and luxury travel market with extensive leisure and business facilities. Hyatt further has two Grand Hyatt properties under construction, with a Grand Hyatt in Al Khobar slated to open in 2020 and a Grand Hyatt Mekkah set to open in 2025.
Wyndham	Wyndham is well established in Saudi Arabia, with 17 hotels at several locations, including Mecca, Riyadh, Jeddah, Medina, Dammam and Al Khobar. Many of the hotels cater to the budget to mid-range sector, although Wyndham also has several high-end hotels and resorts in the country. Brands in operation in Saudi Arabia include Ramada, Super 8, Days Hotel, Howard Johnson and Hawthorn Suites. In January 2016 Wyndham announced plans to develop new Ramada-brand properties in Saudi Arabia, Jordan and Bahrain. In October 2017, Wyndham signed a deal to develop one more Ramada hotel in Riyadh, the 189-room Ramada Riyadh King Fahd Road. Furthermore, the company plans to expand its budget Super 8 portfolio in the country.

Source: Company data, Fitch Solutions

Tourism Methodology

Industry Forecast Methodology

Our industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise model we use varies from industry to industry. In each case this is determined, as per standard practice, by the prevailing features of the industry being examined.

Common to our analysis of every industry is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

We mainly use OLS estimators. In order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. We mainly use a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', such as poor weather conditions that affect agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. We select the best model according to various different criteria and tests, including but not exclusive to:

- R2 tests explanatory power; adjusted R2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value);

All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

We use the selected best model to perform forecasting.

Human intervention plays a necessary and desirable role in all our industry forecasting. Experience, expertise and knowledge of industry data and trends ensure that analysts spot structural breaks, anomalous data, turning points and seasonal features, while a purely mechanical forecasting process would not.

Sector-Specific Methodology

A number of principal criteria drive our forecasts for each tourism sector variable.

Figures for the tourism sector data are based, where possible, on industry associations/operators, government/ministry sources and official data. Where these are unavailable, tourism forecasts are based on a range of variables:

- Government policy, industry trends and expenditure levels stated in international and national press.

- Industry trends and expenditure levels stated in tourism companies' official financial reports or releases.
- Likely expenditure and growth patterns owing to international developments and demographic patterns.
- Likely alterations in expenditure patterns owing to economic/political activity.

Risk/Reward Index Methodology

Our Risk/Reward Indices provide a comparative regional ranking system evaluating the ease of doing business, and the industry-specific opportunities and limitations for potential investors in a given market. The system divides into two distinct areas:

Rewards: Evaluation of sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development. This is further broken down into two sub categories:

- Industry Rewards. This is an industry-specific category that takes into account current industry size and growth forecasts, and the openness of a market to new entrants and foreign investors, to provide an overall score for potential returns for investors.
- Country Rewards. This is a country-specific category, and the score factors in favourable political and economic conditions for the industry.

Risks: Evaluation of industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period. This is further broken down into two sub categories:

- Industry Risks. This is an industry-specific category whose score covers potential operational risks to investors, regulatory issues inhibiting the industry, and the relative maturity of a market.
- Country Risks. This is a country-specific category in which political and economic instability, unfavourable legislation and a poor overall business environment are evaluated to provide an overall score.

We take a weighted average, combining industry and country risks, or industry and country rewards. These two results in turn provide an overall Risk/Reward score, which is used to create our regional ranking system for the risks and rewards of involvement in a specific industry in a particular country.

For each category and subcategory, a country is scored out of 100 (100 being the best), with the overall Risk/Reward score a weighted average of the total score. Importantly, as most of the countries and territories evaluated are considered by us to be 'emerging markets', our indices are revised on a quarterly basis. This ensures that they draw on the latest information and data across our broad range of sources, and the expertise of our analysts.

Our approach in assessing the risk/reward balance for industry investors globally is fourfold:

- First, we identify factors (in terms of current industry/country trends and forecast industry/country growth) that represent opportunities to would-be investors.
- Second, we identify country- and industry-specific traits that pose or could pose operational risks to would-be investors.
- Third, we attempt, where possible, to identify objective indicators that may serve as proxies for issues/trends to avoid subjectivity.
- Finally, we use our proprietary Country Risk Index in a nuanced manner to ensure that only the aspects most relevant to the industry are incorporated. Overall, the system offers an industry-leading, comparative insight into the opportunities/risks for companies across the globe.

Sector-Specific Methodology And Weighting

In constructing these indices, the following indicators have been used. Almost all indicators are objectively based. Given the number

of indicators/datasets used, it would be inappropriate to give all subcomponents equal weight. Consequently, the following weighting has been adopted:

WEIGHTING OF INDICATORS

	Weighting, %
Rewards	70, of which
Industry Rewards	60, of which
Tourist arrivals, '000	20
International tourism receipts per visitor, USD	20
Arrivals growth, %	20
Tourism receipts growth, %	20
Hotel occupancy, %	20
Country Rewards	40, of which
Physical infrastructure	50
Labour costs	50
Risks	30, of which
Industry Risks	45, of which
Stability of exposed region	50
Short-term political stability	50
Country Risks	55, of which
Legal framework	20
Corruption	20
Bureaucracy	20
Market openness	20
Security risk	20

Source: Fitch Solutions

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